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March 5, 2009

VIA E-FILE

Charles L.A. Terreni, Esquire
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Dr., Suite 100
Columbia, SC 29210

Re: Annual Review of Base Rates for Fuel Costs of South Carolina Electric and Gas Company
Docket No.: 2009-2-E

Dear Mr. Terreni:

Please find attached the direct testimony of A. Randy Watts and Jacqueline R. Cherry filed on behalf of the South Carolina Office of Regulatory Staff ("ORS") in Docket No. 2009-2-E. The testimony of Mr. Watts contains information previously identified by SCE&G as being confidential and is filed in a redacted and unredacted version. The information was identified as being confidential by SCE&G some time ago during ORS's evaluation of fuel cost information for the 2009 fuel hearing.

Pursuant to a confidentiality agreement executed with SCE&G in November 2008, ORS is maintaining the confidential nature of the information by redacting the information located on pages 9 through 11 of Mr. Watts's testimony. The unredacted version has the information shaded in grey so the reader is alerted that it was redacted in the public version. Ms. Cherry's testimony has no information previously identified by SCE&G as being confidential. ORS anticipates that as soon as SCE&G has reviewed Mr. Watt's testimony, SCE&G will submit a filing to the Commission stating whether it requests the redacted information to remain confidential. Until that time and until the Commission has made a ruling based on SCE&G's anticipated filing, ORS requests that the Commission make available to the public the redacted testimony. If SCE&G states to the Commission that the information is no longer confidential or if the Commission rules that the information does not warrant confidential treatment, ORS will promptly file a revised public version of Mr. Watts's testimony.

Sincerely,

Shannon Bowyer Hudson
Shannon Bowyer Hudson

Enclosures

cc: Catherine D. Taylor, Esquire
K. Chad Burgess, Esquire
Mitchell Willoughby, Esquire
Belton T. Zeigler, Esquire
Scott Elliott, Esquire
Damon E. Xenopolous, Esquire
E. Wade Mullins, III, Esquire
Joey R. Floyd, Esquire

THE OFFICE OF REGULATORY STAFF
DIRECT TESTIMONY AND EXHIBITS
OF
JACQUELINE R. CHERRY

March 5, 2009



DOCKET NO. 2009-2-E

**Annual Review of Base Rates for Fuel Costs
of South Carolina Electric & Gas Company**

1 **DIRECT TESTIMONY OF**
2 **JACQUELINE R. CHERRY**
3 **ON BEHALF OF**
4 **THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF**
5 **DOCKET NO. 2009-2-E**
6 **IN RE: ANNUAL REVIEW OF BASE RATES FOR FUEL COSTS**
7 **SOUTH CAROLINA ELECTRIC & GAS COMPANY**

8
9 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND**
10 **OCCUPATION.**

11 **A.** My name is Jacqueline R. Cherry. My business address is 1401 Main
12 Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South
13 Carolina Office of Regulatory Staff (“ORS”) in the Audit Department, as an
14 Audit Manager.

15 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**
16 **EXPERIENCE.**

17 **A.** I received a B.S. Degree in Business Administration, with a major in
18 Accounting from Johnson C. Smith University in 1976. From February 1979 to
19 October 2004, I was employed as an auditor with the Public Service Commission
20 of South Carolina (the “Commission”) and participated in cases involving the
21 regulation of gas, electric, telephone, water and wastewater utilities. In October
22 2004, I began employment as an Audit Manager with ORS.

23

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
2 **PROCEEDING?**

3 **A.** The purpose of my testimony is to present the results of ORS Audit
4 Staff's examination of the books and records pertaining to South Carolina Electric
5 & Gas Company's ("the Company" or "SCE&G") Fuel Adjustment Clause
6 ("FAC") operation for the current review period of February 2008 through April
7 2009 (Docket No. 2009-2-E). The findings of the examination are set forth below
8 and in the exhibits attached to this testimony.

9 **Q. DID THE NUMBER OF ACTUAL MONTHS' DATA CHANGE FOR THIS**
10 **CURRENT REVIEW PERIOD?**

11 **A.** Yes. The parties agreed to present eleven (11) actual months and four (4)
12 estimated months of fuel data for this review period. Limiting the review to
13 eleven (11) actual months allowed ORS and SCE&G to meet their respective
14 filing deadlines. With the Commission's permission, each succeeding review
15 period will consist of twelve (12) actual months and four (4) estimated months.
16 For example, the next review period will consist of actual data from January 2009
17 through December 2009 and estimated data from January 2010 through April
18 2010.

19 **Q. WHAT WAS THE PURPOSE OF THIS EXAMINATION?**

20 **A.** The purpose of this examination was to determine whether the
21 Company's accounting practices in computing and applying the monthly Fuel
22 Adjustment Clause have been in compliance with S.C. Code Ann. §58-27-865

(Supp. 2008) which includes variable environmental costs. To accomplish this task, ORS examined the components associated with the operation of the clause.

Q. WHAT WAS THE SCOPE OF ORS'S EXAMINATION?

A. ORS Audit Staff examined and traced the monthly fuel adjustment factor calculations and the fuel recovery balances recorded in the Company's books and records. The current fuel examination covered the actual period of February through December 2008 ("actual review period") and four (4) estimated months from January to April 2009. ORS Audit Staff did not examine the months of January, February, March, and April 2009 since these were Company estimated figures. The Audit Department's examination consisted of:

1. Analyzing the Fuel Stock Account- Account #151

ORS's analysis of the Fuel Stock Account consisted of tracing receipts to the fuel management system and issues from the fuel management system to the general ledger, examining monthly fuel charges originating in fuel accounting, and ensuring that only proper charges were entered in the Company's computation of fuel costs for purposes of adjusting base rates for fuel costs.

2. Sampling Receipts to the Fuel Stock Account- Account #151

ORS's review of receipts to the Fuel Stock Account consisted of the examination and testing of randomly selected transactions, on a sample basis, which support additions to the account. Each transaction examined was tested for mathematical accuracy, and vouched to a corresponding waybill or truck bill, coal receiving report and freight study detailed report. Each transaction

1 was then traced to a fuel management system payment voucher to prove
2 payment of the correct amount to the vendors.

3 3. Verifying Charges to Nuclear Fuel Expense- Account #518

4 ORS traced the expense amounts for nuclear fuel to the books and records for
5 the actual review period to verify the accuracy of these expenses to fuel
6 amortization schedules.

7 4. Verifying Purchased and Interchange Power Fuel Costs

8 ORS verified the Company's Purchased and Interchange Power Fuel Costs,
9 kilowatt-hour ("kWh") purchases and sales for the actual review period to
10 various "Energy Received and Energy Delivered" summary reports,
11 Purchases, Sales and Interchange Power schedules, and on a sample basis, to
12 monthly invoices. ORS recomputed the Company's sales and purchases.

13 The Purchased and Interchange Power figures for the actual review period and
14 the resultant over(under)-recovery monthly deferred fuel amounts for the
15 period reflect calculations which conform to S.C. Code Ann. §58-27-865
16 (Supp. 2008). This statute addresses "fuel costs related to purchased power."

17 Subsection (A)(2)(b) of this statute states that the total delivered cost of
18 economy purchases, including (but not limited to) transmission charges, are
19 included in Purchased Power Costs if those purchases are "less than the
20 purchasing utility's avoided variable costs for the generation of an equivalent
21 quantity of electric power." ORS applied this statute to the examined
22 economic purchases along with the applicable avoided costs. ORS noted no
23 exceptions to Purchased Power Costs. It should be noted that the Company

1 has an "in-house" procedure that audits the Company's avoided costs
2 information in relation to the Company's hourly purchase power records.
3 Since this procedure is performed weekly, it enables the Company to monitor
4 more closely and if needed, to quickly correct its avoided costs versus
5 purchase price transactions.

6 5. Verifying kWh Sales

7 ORS verified total system sales, as filed in the monthly fuel factor
8 computation, to monthly Class/Rate Summary reports for the actual review
9 period. The monthly kWh sales figures were then used to determine the fuel
10 cost per kWh sold.

11 6. Recalculating the Fuel Adjustment Factors and Verifying the Deferred Fuel
12 Costs

13 ORS recalculated the Fuel Cost Adjustment Factors for the actual review
14 period utilizing information obtained from the Company's records. ORS
15 verified the Total Fuel Costs for the actual review period to the Company's
16 books and records. In recalculating the monthly factors, ORS divided the
17 Total Fuel Costs by Total System Sales to arrive at fuel costs per kWh sales.
18 The base fuel cost per kWh, included in the base rates, is then subtracted from
19 the fuel cost per kWh sales. The resulting figure represents the fuel cost
20 adjustment above or below the base rate per kWh sales. The South Carolina
21 Retail Jurisdictional kWh deferrals were checked against the Company's
22 records. The actual Deferred Fuel Costs for each month were verified to the
23 Company's books and records.

1 7. Recalculating the True-up for the Over(Under)-Recovered Fuel Costs

2 ORS analyzed and recomputed the cumulative over(under)-recovery of actual
3 fuel costs for the period February 2008 through December 2008 of
4 (\$130,199,721) and estimated fuel costs through April 2009 of
5 (\$111,468,230). In addition, ORS recomputed the cumulative over(under)-
6 recovery of actual environmental fuel costs for the period February 2008
7 through December 2008 of \$14,512,678 and of estimated environmental fuel
8 costs through April 2009 of \$14,369,671.

9 8. Details of the Company's Received Fuel Coal Costs

10 ORS prepared exhibits based upon information obtained from SCE&G's
11 books and records and other sources reflecting coal costs during the review
12 period. Specifically, these exhibits are as follows:

13 Audit Exhibit JRC-1: Total Received and Weighted Average Cost

14 Audit Exhibit JRC-2: Received Coal-Cost Per Ton (Per Plant)

15 Audit Exhibit JRC-3: Received Coal-Cost Per Ton Comparison

16 **Q. PLEASE EXPLAIN THE AUDIT EXHIBITS ATTACHED TO YOUR**
17 **TESTIMONY.**

18 **A.** ORS prepared audit exhibits from the Company's books and records
19 reflecting fuel costs during the review period. Specifically, these exhibits include
20 the following:

21 **AUDIT EXHIBIT JRC-1: TOTAL RECEIVED AND WEIGHTED**
22 **AVERAGE COST**

1 In Audit Exhibit JRC-1, titled Total Received and Weighted Average Cost, ORS
2 reflects the total cost for the actual review period, for the three types of fossil fuel:
3 coal, #2 oil, and natural gas. ORS has also computed the weighted average cost
4 of each type of fuel.

5 **AUDIT EXHIBIT JRC-2: RECEIVED COAL – COST PER TON (PER**
6 **PLANT)**

7 This audit exhibit reflects the received cost per ton for coal at each plant during
8 the actual review period, in dollars per ton including freight costs.

9 **AUDIT EXHIBIT JRC-3: RECEIVED COAL - COST PER TON**
10 **COMPARISON**

11 This audit exhibit reflects the received cost per ton for coal for each month from
12 February through December 2008 for South Carolina Electric & Gas Company,
13 Duke Energy Carolinas, and Carolina Power & Light Company d/b/a Progress
14 Energy Carolinas, Inc. ORS has shown, for comparison purposes, the invoice
15 cost per ton, freight cost per ton, total cost per ton and the cost per MBTU.

16 **AUDIT EXHIBIT JRC-4: BURNED COST – CONSUMED GENERATION**

17 This audit exhibit reflects the per book cost of burned fuel used for generation
18 during the actual review period. The burned cost of each class of fuel is shown
19 separately. These costs are used in the computations for the base fuel factor. The
20 SO₂ emission allowance expenses and other variable environmental costs are
21 shown separately as described in §58-27-865 (A)(1)(Supp. 2008).

22 **AUDIT EXHIBIT JRC-5: COST OF FUEL**

1 This audit exhibit reflects ORS's computation of the total fuel cost applicable to
2 the base fuel factor computation. There are three (3) components used in arriving
3 at this cost. These components are:

- 4 (1) Cost of Fuel Burned;
- 5 (2) Purchased and Interchange Power Fuel Cost; and
- 6 (3) Fuel Cost Recovered from Intersystem Sales.

7 Cost of Fuel Burned--- This amount is the burned cost of all fossil and nuclear fuel
8 burned during the review period used in the Base Fuel Component computation.
9 A detailed breakdown of coal, oil, gas and nuclear fuel can be seen in Audit
10 Exhibit JRC-4.

11 Purchase and Interchange Power Fuel Cost--- This amount is the monthly cost of
12 kWh received by SCE&G from other electric utilities or power marketers.

13 Fuel Cost Recovered from Intersystem Sales--- This amount is the fuel-related
14 cost of kWh sales during the period to another electric utility and/or power
15 marketer. Total fuel cost applicable to the Base Fuel Component Factor is
16 computed by adding the cost of fuel burned to purchased and interchange power
17 fuel costs. This amount is then reduced by fuel associated with intersystem sales.

18 **AUDIT EXHIBIT JRC-6: COMPUTATION OF UNBILLED REVENUE**

19 Shown in this audit exhibit are the actual base fuel cost computations for the
20 actual review period and the estimated fuel costs for January through April 2009.

21 The exhibit also shows various adjustments and the base fuel cost computation of
22 the cumulative over(under)-recovery balances for February through December
23 2008.

AUDIT EXHIBIT JRC-7: TOTAL ENVIRONMENTAL COSTS

Shown in this audit exhibit are the total environmental costs for the actual review period for sulfur dioxide (SO₂) and nitrogen oxides (NO_x) emission allowances, lime, limestone and ammonia.

AUDIT EXHIBIT JRC-8: DETAILS OF ENVIRONMENTAL COSTS

Shown in this audit exhibit are the actual fuel cost computations for the actual review period for sulfur dioxide (SO₂) and nitrogen oxides (NO_x) emission allowances, lime, limestone, ammonia, and the estimated variable environmental costs for January through April 2009.

Q. WOULD YOU PLEASE EXPLAIN THE AMOUNT BROUGHT FORWARD FOR THE CUMULATIVE OVER(UNDER)-RECOVERY BALANCE IN AUDIT EXHIBIT JRC-6?

A. Yes. As reflected in Audit Exhibit JRC-6, ORS brought forward a cumulative (under)-recovery balance from January 2008 of (\$28,848,155). The Company's testimony reflects the same (under)-recovery balance brought forward from January 2008 as the ORS. {Allen Rooks' EXHIBIT NO.__(AWR-1)}.

Q. PLEASE ELABORATE ON ORS AUDIT STAFF'S COMPUTATION OF THE TRUE-UP OF OVER(UNDER)-RECOVERED FUEL COSTS.

A. ORS Audit Exhibit JRC-6, entitled "Computation of Unbilled Revenue" provides details for ORS's calculation of the actual cumulative (under)-recovery balance through December 2008, and the estimated balance through April 2009. The cumulative (under)-recovery amount totaled (\$130,199,721) through December 2008. ORS then added the estimated over-recoveries of \$862,650 for

1 January 2009, \$6,462,000 for February 2009, \$4,274,530 for March 2009 and
2 \$4,935,200 for April 2009; included the monthly calculation amount of
3 \$1,785,357 for the Urquhart and Jasper Fixed Capacity Charges and a NCEMC
4 sales cost allocation adjustment; and included the Company's estimated on-going
5 adjustments for 'cycle billing' Unbilled Fuel Cost Over(Under)-Recoveries to
6 arrive at a cumulative (under)-recovery of (\$111,468,230) through April 2009.
7 The Company's pre-filed testimony {Rooks' EXHIBIT NO.__(AWR-1)} in this
8 docket lists the cumulative (under)-recovery total through December 2008 as
9 (\$130,584,338) and through April 2009, the (under)-recovery totals
10 (\$111,852,847). The difference between the Company's and ORS's cumulative
11 (under)-recovery as of actual December 2008 is (\$384,617). The difference is
12 detailed on Audit Exhibit JRC-6 as Over-Recovery Adjustment (5) for \$384,617.

13 **Q. DID THE COMPANY MAKE ANY ADJUSTMENTS OR TRUE-UPS**
14 **DURING THE ACTUAL REVIEW PERIOD FOR THE BASE FUEL**
15 **COMPONENT?**

16 **A.** Yes. The Company made the following adjustments as shown on Audit
17 Exhibit JRC-6:

18 **Adjustment (1)**—As of May 2006, pursuant to the Settlement Agreement
19 approved in PSC Docket No. 2006-2-E, a monthly carrying cost was applied to an
20 under-recovery balance of \$19,244,219 (as per the agreement, "no greater than the
21 under-recovery at April 30, 2006 over a two year period commencing May 1,
22 2006"). The calculation used the monthly interest rate based on 10-year U.S.
23 Government Treasury Bills as of the first day of the month plus 65 basis points

1 (0.65 percentage points). This monthly carrying cost has been collected as an
2 (under)-recovery entry to the Deferred Fuel Account (Account # 182.3004).
3 During the first part of the review period, per the second year of the agreement,
4 the monthly carrying cost was continuously calculated on the declining remaining
5 balance of the \$19,244,219. The monthly carrying cost recovery was completed
6 in April 2008, meeting the requirements of the settlement agreement approved in
7 Docket No. 2006-2-E. ORS examined and recomputed the carrying charges for
8 these entries, with no exceptions noted.

9 **Adjustment (2)**—As in PSC Docket No. 2008-2-E, the Company has a regular
10 monthly reduction adjustment to the Deferred Fuel Account, shown as an over-
11 recovery amount of \$1,785,357. This amount consists of the Urquhart Plant and
12 the Jasper Plant (Combined Cycle) Fixed Capacity Charges respective monthly
13 amounts of \$673,417 and \$910,166, which are treated (respectively, per PSC
14 Orders No. 2003-38 and No. 2005-2) on a retail basis as reduction Deferred Fuel
15 Entries; and a NCEMC Sales cost allocation correction over-recovery adjustment
16 of \$201,774. ORS examined and recomputed the adjustment with no exceptions
17 noted.

18 **Adjustment (3A) through (3D)**—In various months of the review period, the
19 Company had under-recovery true-ups to the cumulative balances of the Deferred
20 Fuel Account (Account #182.3004). In April, July and August 2008, these true-
21 ups were due to increase revisions and updates to gas costs: **Adj. (3A)**-April
22 2008 for (\$132,426); **Adj. (3B)**-July 2008 for (\$120,464); and **Adj. (3C)**-August
23 2008 for (\$534,384). **Adj. (3D)** for (\$888,971) -- In December 2008, (based on

several prior months) a true-up correction adjustment was made due to usage of incorrect coal cost per ton information in calculations for coal expense allocations. ORS examined and recomputed these adjustments with no exceptions noted.

Adjustment (4)—For clarification purposes in the fuel review process, as of December 2008 and going forward in the forecasted months, the Company reflects an adjustment to account for the ‘timing difference’ associated with unbilled revenue per electric sales not yet billed due to the regular ‘cycle billing’ process versus the Fuel Adjustment Clause process which reflects all of its unbilled fuel transactions (sales and costs) on a full monthly basis. SCE&G’s Unbilled Fuel Cost Over(Under)-Recovery (cycle billing) adjustment for December 2008 was an over-recovery total adjustment of \$24,997,275. Since there are two components in the FAC process, for December 2008, the Base Fuel Cost Component reflects an over-recovery adjustment of \$24,305,022 and the Environmental Cost Component reflects an over-recovery adjustment of \$692,253 (see Audit Exhibit JRC-8 for details). ORS examined and recomputed this adjustment with no exceptions noted.

Q. DID YOU NOTE ANY DIFFERENCES BETWEEN ORS’S AND THE COMPANY’S CALCULATIONS OF THE (UNDER)-COLLECTION FOR THE BASE FUEL COMPONENT AS OF DECEMBER 2008?

A. Yes. Based on ORS’s examination of the actual months of the review period, ORS computed an adjustment as reflected in Audit Exhibit JRC-6, “Computation of Unbilled Revenue”, as follows:

1 **Adjustment (5)**—ORS made a reduction adjustment of \$409,516, on a system
2 basis, concerning the effect on the FAC of certain third-party coal sales to
3 industries. The effect of the adjustment, on a retail jurisdictional basis, is a
4 decrease of \$384,617 to the (under)-recovery balance (shown as an over-recovery
5 adjustment).

6 It should be noted that ORS witness, A. Randy Watts, has addressed the details of
7 Adjustment (5) in his direct testimony.

8 **Q. WOULD YOU PLEASE EXPLAIN THE BALANCE BROUGHT**
9 **FORWARD FOR THE CUMULATIVE OVER(UNDER)-RECOVERY**
10 **BALANCE IN AUDIT EXHIBIT JRC-8?**

11 **A.** Yes. As reflected in Audit Exhibit JRC-8, ORS brought forward a
12 cumulative over-recovery balance from January 2008 of \$9,866,854. The
13 Company's testimony {Rooks' EXHIBIT NO. __ (AWR-3)} reflects a cumulative
14 over-recovery balance brought forward from January 2008 of \$9,772,226. The
15 differences in the balance of \$94,628 reflects the Company's posting of ORS's
16 adjustments from the prior review period, Docket No. 2008-2-E, in February 2008
17 for \$94,627 and reflects a \$1 rounding difference.

18 **Q. PLEASE ELABORATE ON ORS AUDIT STAFF'S COMPUTATION OF**
19 **THE TRUE-UP OF OVER(UNDER)-RECOVERED ENVIRONMENTAL**
20 **COSTS.**

21 **A.** Effective with the May 3, 2007 passage of the S.C. Base Load Review
22 Act, S.C. Code Ann. §58-27-865 was amended to include, as components of fuel
23 cost, "(a) the cost of ammonia, lime, limestone, urea, dibasic acid, and catalysts

1 consumed in reducing or treating emissions, and (b) the cost of emission
2 allowances, as used, including allowances for SO₂, NO_x, mercury and
3 particulates.” Audit Exhibit JRC-8, entitled “Details of Environmental Costs”,
4 provides the details needed to calculate the variable environmental costs included
5 in the fuel factor. In addition, effective May 3, 2007, SO₂ emission allowances
6 were included in the environmental cost factor of the FAC. Prior to that date,
7 these costs had been included in the base fuel factor under the FAC.

8 ORS Audit Exhibit JRC-8 provides data for ORS’s cumulative
9 environmental cost over-recovery balance through December 2008, and the
10 estimated cumulative over-recovery balance through April 2009. The cumulative
11 environmental cost over-recovery amount totaled \$14,512,678 through December
12 2008. ORS then added the monthly estimated over(under)-recoveries for January
13 through April 2009; and included the Company’s estimated on-going adjustments
14 for ‘cycle billing’ Unbilled Fuel Cost Over(Under)-Recoveries to arrive at a
15 cumulative over-recovery of \$14,369,671 through April 2009. The Company’s
16 pre-filed testimony {Rooks’ EXHIBIT NO. __ (AWR-3)} in this docket lists the
17 cumulative environmental cost over-recovery total through December 2008 as
18 \$431,033 and through April 2009 as \$288,028. The difference between the
19 Company’s and ORS’s cumulative over-recovery as of actual December 2008
20 totals \$14,081,645. The difference is shown in Audit Exhibit JRC-8 as Over-
21 Recovery Adjustment (3) for \$14,081,647. This adjustment, concerning
22 elimination of gains on SO₂ emissions allowances, is discussed on page 16 of my
23 testimony.

1 **Q. DID THE COMPANY MAKE ANY ADJUSTMENTS OR TRUE-UPS**
2 **DURING THE ACTUAL REVIEW PERIOD FOR THE**
3 **ENVIRONMENTAL COST COMPONENT?**

4 **A.** Yes. The Company made the following adjustments as shown on Audit
5 Exhibit JRC-8:

6 **Adjustment (1A)**—In September 2008, the Company made an over-recovery
7 true-up adjustment of \$210,907 to the cumulative environmental recovery
8 balances to reflect a correction adjustment to transfer some lime costs from
9 environmental expenses to capitalized costs. ORS examined and recomputed the
10 adjustment with no exceptions noted.

11 **Adjustment (1B)**—In November 2008, the Company made an over-recovery
12 adjustment of \$378,000 to reflect the Stateline Billings' final collections used to
13 reduce the FAC's Environmental Cost Component. ORS examined and
14 recomputed this adjustment with no exceptions noted.

15 **Adjustment (2)**—For clarification purposes, as mentioned on page 12 of my
16 testimony in the explanation for Adjustment (4) in the Base Fuel Component
17 computations, the Company made an adjustment in December 2008 and going
18 forward in the forecasted months for the Unbilled Fuel Cost Over(Under)-
19 Recovery 'cycle billing' effect to the FAC. Accordingly, the Environmental Cost
20 Component reflects an over-recovery adjustment of \$692,253 in December 2008.
21 ORS examined and recomputed this adjustment with no exceptions noted.

22 **Q. DID YOU NOTE ANY DIFFERENCES BETWEEN ORS'S AND THE**
23 **COMPANY'S CALCULATIONS OF THE OVER-COLLECTION FOR**

1 **THE ENVIRONMENTAL COST COMPONENT AS OF DECEMBER**
2 **2008?**

3 **A.** Yes. Based on ORS's examination of the actual months of the review
4 period, ORS computed an adjustment as reflected in Audit Exhibit JRC-8,
5 "Details of Environmental Costs", as follows:

6 **Adjustment (3)**—ORS made an adjustment to eliminate the balance in the
7 account (Account #254.01) which accumulates the gains realized on SO₂
8 Emissions Allowances associated with Intersystem Sales. The cumulative
9 balance in this account as of December 31, 2008 was \$14,081,647. Therefore, the
10 effect of the adjustment resulted in an over-recovery adjustment of \$14,081,647.

11 A. Randy Watts, addressed the details of Adjustment (3) in his direct testimony.

12 **Q. WHAT IS ORS's COMBINED TOTAL OF THE BASE FUEL COST AND**
13 **ENVIRONMENTAL COST COMPONENTS AS OF ACTUAL**
14 **DECEMBER 2008 AND AS OF ESTIMATED APRIL 2009?**

15 **A.** As of December 2008, based on a Base Fuel Cost component of
16 (\$130,199,721) and an Environmental Cost component of \$14,512,678, the
17 combined result totals (\$115,687,043). As of April 2009, based on a Base Fuel
18 Cost component of (\$111,468,230) and an Environmental Cost component of
19 \$14,369,671, the combined result totals (\$97,098,559).

20 **Q. WHAT IS THE RESULT OF THE ORS AUDIT DEPARTMENT'S**
21 **EXAMINATION?**

22 **A.** Based on ORS Audit Staff's examination of the Company's books and
23 records, and its operation of the fuel cost recovery mechanism, ORS Audit

1 Department is of the opinion that, subject to Adjustment (5) for the Base Fuel
2 Component and Adjustment (3) for the Environmental Cost Component, the
3 Company's books and records accurately reflect the fuel costs incurred by the
4 Company in accordance with previous Commission orders and with S.C. Code
5 Ann. §58-27-865 (Supp. 2008).

6 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

7 **A.** Yes, it does.

South Carolina Electric & Gas Company
Total Received and Weighted Average Cost
February 2008 - December 2008
Docket No. 2009-2-E

<u>Month</u>	<u>Coal</u>		<u>#2 Oil</u>		<u>Gas</u>		<u>Total Received Cost</u>
	<u>Tons</u>	<u>\$</u>	<u>Gal</u>	<u>\$</u>	<u>MCF</u>	<u>\$</u>	
Feb-08	393,222	27,194,101	328,984	953,185	932,192	11,090,793	39,238,079
Mar-08	489,727	32,897,592	230,347	771,313	2,045,560	22,822,421	56,491,326
Apr-08	405,695	27,269,570	476,826	1,687,002	2,027,481	23,783,191	52,739,763
May-08	405,459	27,065,738	447,183	1,749,874	1,962,981	25,763,807	54,579,419
Jun-08	430,844	33,253,863	206,935	812,526	3,806,800	53,076,391	87,142,780
Jul-08	493,525	51,644,690	22,258	110,203	2,493,496	31,590,432	83,345,325
Aug-08	519,191	52,670,389	178,548	622,606	2,965,410	30,185,210	83,478,205
Sep-08	517,821	49,682,649	127,208	422,423	2,313,627	22,798,871	72,903,943
Oct-08	569,787	57,168,368	200,880	521,935	1,786,966	14,882,115	72,572,418
Nov-08	618,846	66,619,277	313,093	706,479	764,920	7,728,275	75,054,031
Dec-08	658,037	66,493,954	52,564	82,212	697,460	6,184,195	72,760,361
Total	5,502,154	491,960,191	2,584,826	8,439,758	21,796,893	249,905,701	750,305,650
Weighted Average	89.41		3.27			11.47	

South Carolina Electric & Gas Company
 Received Coal - Cost Per Ton (Per Plant)
 February 2008 - December 2008
 Docket No. 2009-2-E

<u>Plant</u>	<u>Feb-08</u>	<u>Mar-08</u>	<u>Apr-08</u>	<u>May-08</u>	<u>Jun-08</u>	<u>Jul-08</u>	<u>Aug-08</u>	<u>Sep-08</u>	<u>Oct-08</u>	<u>Nov-08</u>	<u>Dec-08</u>
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Canadys	69.94	71.14	70.94	69.71	73.74	86.58	71.52	95.56	93.72	78.91	123.74
Cope	62.04	73.41	77.79	79.54	84.92	80.12	78.88	0*	78.21	94.35	87.29
McMeekin	62.24	64.23	64.97	72.81	64.30	88.29	120.71	113.26	111.37	72.06	105.91
Urquhart	62.98	63.95	60.36	61.73	79.27	77.39	83.73	87.56	89.48	86.03	78.96
Wateree	75.83	64.27	53.78	59.35	84.30	122.19	115.49	98.08	123.49	119.09	92.01
Williams	72.60	64.94	66.31	54.53	71.15	138.77	113.00	87.03	70.10	117.03	107.08
Total System	69.16	67.18	67.22	66.75	77.18	104.64	101.45	95.95	100.33	107.65	101.05

* Note: On September 1, 2008, Cope Station was taken offline for a planned 11 week outage for a Selective Catalytic Reduction (SCR) installation.

**South Carolina Electric & Gas Company
Received Coal - Cost Per Ton Comparison
February 2008 - December 2008
Docket No. 2009-2-E**

South Carolina Electric & Gas Company

<u>Month</u>	<u>Invoice Cost Per Ton</u>	<u>Freight Cost Per Ton</u>	<u>Total Cost Per Ton</u>	<u>Cost Per MBTU</u>
	\$	\$	\$	\$
Feb-08	50.13	19.03	69.16	2.7500
Mar-08	53.19	13.99	67.18	2.6800
Apr-08	52.24	14.98	67.22	2.6700
May-08	50.77	15.98	66.75	2.6500
Jun-08	61.30	15.88	77.18	3.0700
Jul-08	89.42	15.22	104.64	4.1900
Aug-08	84.25	17.20	101.45	4.0400
Sep-08	80.28	15.67	95.95	3.8300
Oct-08	82.46	17.87	100.33	3.9800
Nov-08	94.17	13.48	107.65	4.3000
Dec-08	84.45	16.60	101.05	3.9900

Duke Energy Carolinas

<u>Month</u>	<u>Invoice Cost Per Ton</u>	<u>Freight Cost Per Ton</u>	<u>Total Cost Per Ton</u>	<u>Cost Per MBTU</u>
	\$	\$	\$	\$
Feb-08	46.02	22.44	68.46	2.7907
Mar-08	45.76	25.11	70.87	2.9194
Apr-08	48.24	22.20	70.44	2.9138
May-08	48.74	22.71	71.45	2.9396
Jun-08	51.34	28.38	79.72	3.2715
Jul-08	55.02	25.44	80.46	3.3169
Aug-08	65.20	20.43	85.63	3.5359
Sep-08	61.27	25.84	87.11	3.6001
Oct-08	67.67	25.34	93.01	3.8009
Nov-08	61.13	26.15	87.28	3.6063
Dec-08	63.81	29.49	93.30	3.8423

South Carolina Electric & Gas Company
Received Coal - Cost Per Ton Comparison
February 2008 - December 2008
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Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.

<u>Month</u>	<u>Invoice Cost Per Ton</u>	<u>Freight Cost Per Ton</u>	<u>Total Cost Per Ton</u>	<u>Cost Per MBTU</u>
	\$	\$	\$	\$
Feb-08	51.08	22.33	73.41	2.9790
Mar-08	55.19	23.00	78.19	3.1880
Apr-08	54.75	22.96	77.71	3.1620
May-08	58.15	24.81	82.96	3.3845
Jun-08	64.52	22.24	86.76	3.5329
Jul-08	59.48	30.00	89.48	3.4027
Aug-08	61.07	29.00	90.07	3.6687
Sep-08	62.47	24.85	87.32	3.5548
Oct-08	64.41	32.10	96.51	3.9510
Nov-08	68.13	29.93	98.06	3.9977
Dec-08	63.73	24.68	88.41	3.6223

South Carolina Electric & Gas Company
 Burned Cost - Consumed Generation
 February 2008 - December 2008
 Docket No. 2009-2-E

Used for Base Fuel Factor:											
Month	Coal	#2 Oil		Gas		Nuclear		Total Burned			
	\$	%	\$	%	\$	%	\$	%	Cost	\$	
Feb-08	27,728,486	67.58%	388,041	0.95%	11,075,950	26.99%	1,838,731	4.48%		41,031,208	
Mar-08	25,788,116	50.36%	705,440	1.38%	22,661,336	44.25%	2,055,265	4.01%		51,210,157	
Apr-08	22,816,457	46.44%	904,671	1.84%	23,769,723	48.39%	1,635,643	3.33%		49,126,494	
May-08	30,548,525	52.65%	1,714,305	2.95%	25,761,480	44.40%	0 *	0.00%		58,024,310	
Jun-08	32,494,762	37.42%	246,575	0.29%	52,947,328	60.98%	1,139,263	1.31%		86,827,928	
Jul-08	38,829,844	53.75%	85,563	0.12%	31,039,860	42.97%	2,285,622	3.16%		72,240,889	
Aug-08	44,866,078	57.48%	722,064	0.92%	30,182,206	38.67%	2,284,832	2.93%		78,055,180	
Sep-08	34,679,939	57.71%	408,851	0.68%	22,798,213	37.93%	2,212,128	3.68%		60,099,131	
Oct-08	28,313,491	61.12%	842,212	1.82%	14,878,820	32.12%	2,287,396	4.94%		46,321,919	
Nov-08	36,464,715	77.31%	775,774	1.64%	7,713,985	16.35%	2,215,518	4.70%		47,169,992	
Dec-08	38,061,471	81.61%	114,514	0.25%	6,168,850	13.23%	2,289,028	4.91%		46,633,863	
Totals	360,591,884	56.63%	6,908,010	1.08%	248,997,751	39.11%	20,243,426	3.18%		636,741,071	

* Note: For May 2008, the V.C. Summer Nuclear Plant was taken offline for refueling.

South Carolina Electric & Gas Company
Cost of Fuel
February 2008 - December 2008
Docket No. 2009-2-E

<u>Month</u>	<u>Total Cost of Fuel Burned</u>	<u>Purchased and Interchange Power Fuel Costs</u>	<u>Fuel Cost Recovered from Intersystem Sales</u>	<u>Total Fuel Costs</u>
	\$	\$	\$	\$
Feb-08	41,031,208	8,778,613	(4,342,383)	45,467,438
Mar-08	51,210,157	1,515,861	(2,478,901)	50,247,117
Apr-08	49,126,494	6,143,072	(1,134,116)	54,135,450
May-08	58,024,310	12,747,550	(1,268,271)	69,503,589
Jun-08	86,827,928	20,389,713	(8,496,446)	98,721,195
Jul-08	72,240,889	14,425,774	(9,681,832)	76,984,831
Aug-08	78,055,180	20,089,049	(7,234,525)	90,909,704
Sep-08	60,099,131	19,879,812	(4,206,534)	75,772,409
Oct-08	46,321,919	15,420,883	(1,720,078)	60,022,724
Nov-08	47,169,992	17,529,364	(3,048,072)	61,651,284
Dec-08	46,633,863	16,918,062	(2,901,119)	60,650,806
Totals	636,741,071	153,837,753	(46,512,277)	744,066,547

South Carolina Electric & Gas Company
Computation of Unbilled Revenue
February 2008 - April 2009
Docket No. 2009-2-E

	ACTUAL						
	February 2008	March 2008	April 2008	May 2008	June 2008	July 2008	September 2008
Fossil Fuel (\$)	39,192,477	49,154,892	47,490,851	58,024,310	85,688,665	69,955,267	57,887,003
Nuclear Fuel (\$)	1,838,731	2,055,265	1,635,643	0	1,139,263	2,285,622	2,212,128
Purchased & Interchange Power Fuel (\$)	8,778,613	1,515,861	6,143,072	12,747,550	20,389,713	14,425,774	19,879,812
Total Cost of Fuel Burned (\$)	49,809,821	52,726,018	55,269,566	70,771,860	107,217,641	86,666,663	79,978,943
Less: Fuel Cost Recovered Intersystem Sales (\$)	4,342,383	2,478,901	1,134,116	1,268,271	8,496,446	9,681,832	4,206,534
Total Fuel Costs (\$)	45,467,438	50,247,117	54,135,450	69,503,589	98,721,195	76,984,831	75,772,409
Total System KWH Sales Excluding Intersystem Sales	1,936,760,752	1,768,203,201	1,737,731,823	1,754,667,357	2,152,209,210	2,372,965,414	2,200,683,531
Fuel Cost Per KWH Sales (\$/KWH)	0.023476	0.028417	0.031153	0.039611	0.045870	0.032442	0.034431
Less: Base Cost Per KWH Incurred In Rates (\$/KWH)	0.026300	0.026300	0.026300	0.026410	0.026410	0.026410	0.026410
Fuel Adjustment Per KWH (\$/KWH)	0.00282	(0.00212)	(0.00485)	(0.01320)	(0.01946)	(0.00603)	(0.00802)
Unbilled Revenue KWH Sales	1,822,583,586	1,655,323,155	1,632,957,131	1,639,359,582	2,007,727,658	2,226,602,740	2,078,373,051
Deferred Fuel Entry (\$)	5,139,686	(3,509,285)	(7,919,842)	(21,639,546)	(39,070,380)	(13,426,415)	(16,668,552)
Cumulative Over/(Under) Recovery - January 2008 (\$)	(28,848,155)						
Monthly Carrying Cost Collected (\$)	(16,767)	(10,911)	(5,900)				
Less: Fixed Capacity Charges & Cost Allocation Adj. (\$)	1,785,357	1,785,357	1,785,357	1,785,357	1,785,357	1,785,357	1,785,357
Company Accounting Adjustments (\$)			(132,426) (A)			(120,464) (B)	(534,384) (C)
Cumulative Over/(Under) Recovery (\$)	(21,939,879)	(23,674,718)	(29,947,529)	(49,801,718)	(87,086,741)	(98,848,263)	(140,674,407)

*Explanations of Adjustments (1) through (5) are included in the testimony of Jacqueline R. Cherry.

South Carolina Electric & Gas Company
Computation of Unbilled Revenue
February 2008 - April 2009
Docket No. 2009-2-E

	ACTUAL					ESTIMATED				
	October 2008	November 2008	December 2008	January 2009	February 2009	March 2009	April 2009			
Fossil Fuel (\$)	44,034,523	44,954,474	44,344,835	48,763,000	41,892,000	41,859,000	35,684,000			
Nuclear Fuel (\$)	2,287,396	2,215,518	2,289,028	2,224,000	2,004,000	2,224,000	2,150,000			
Purchased & Interchange Power Fuel (\$)	15,420,883	17,529,364	16,918,062	17,056,000	13,764,000	11,837,000	13,188,000			
Total Cost of Fuel Burned (\$)	61,742,802	64,699,356	63,551,925	68,043,000	57,660,000	55,920,000	51,022,000			
Less: Fuel Cost Recovered Intersystem Sales (\$)	1,720,078	3,048,072	2,901,119	1,720,000	1,577,000	774,000	467,000			
Total Fuel Costs (\$)	60,022,724	61,651,284	60,650,806	66,323,000	56,083,000	55,146,000	50,555,000			
Total System KWH Sales Excluding Intersystem Sales	1,765,982,710	1,618,200,513	1,897,383,944	2,043,000,000	1,913,000,000	1,814,000,000	1,696,000,000			
Fuel Cost Per KWH Sales (\$/KWH)	0.033988	0.038099	0.031965	0.032464	0.029317	0.030400	0.029808			
Less: Base Cost Per KWH Included in Rates (\$/KWH)	0.026410	0.032910	0.032910	0.032910	0.032910	0.032910	0.032910			
Fuel Adjustment Per KWH	(0.00758)	(0.00519)	0.00095	0.00045	0.00359	0.00251	0.00310			
Unbilled Revenue KWH Sales	1,657,597,375	1,505,276,873	1,784,128,281	1,917,000,000	1,800,000,000	1,703,000,000	1,592,000,000			
Deferred Fuel Entry (\$)	(12,564,588)	(7,812,387)	1,694,922	862,650	6,462,000	4,274,530	4,935,200			
September 2008 - (pg. 1 of 2) (\$)	(140,674,407)	-	-	-	-	-	-			
Monthly Carrying Cost Collected (\$)	-	-	-	-	-	-	-			
Less: Fixed Capacity Charges & Cost Allocation Adj. (\$)	1,785,357	1,785,357	1,785,357	1,785,357	1,785,357	1,785,357	1,785,357			
Company Accounting Adjustments (\$)	-	-	(888,971) (D)	-	-	-	-			
Co.'s Unbilled Fuel Cost Over(Under) Recovery Adj. (\$)	-	-	24,305,022	3,032,149	(4,951,434)	(1,290,470)	(1,734,562)			
Less: Over-Recovery Adjustment-- Per ORS Review (\$)	-	-	384,617	-	-	-	-			
Cumulative Over/(Under) Recovery (\$)	(151,453,638)	(157,480,666)	(130,199,721)	(124,519,565)	(121,223,642)	(116,454,225)	(111,468,230)			

*Explanations of Adjustments (1) through (5) are included in the testimony of Jacqueline R. Cherry.

South Carolina Electric & Gas Company
Total Environmental Costs
February 2008 - December 2008
Docket No. 2009-2-E

Used for Environmental Cost Factor:												
Month	SO2 Emissions Allowance		NOx Emissions Allowance		Lime/Limestone		Ammonia		%	\$	%	\$
	\$	%	\$	%	\$	%	\$	%				
Feb-08	1,403,415	74.32%	0	0.00%	481,943	25.52%	3,090	0.16%				1,888,448
Mar-08	1,497,191	82.68%	0	0.00%	307,480	16.98%	6,114	0.34%				1,810,785
Apr-08	1,096,648	69.89%	0	0.00%	466,332	29.72%	6,174	0.39%				1,569,154
May-08	1,380,301	67.19%	137,792	6.71%	505,951	24.63%	30,180	1.47%				2,054,224
Jun-08	1,422,514	45.10%	146,471	4.64%	438,275	13.90%	1,146,789	36.36%				3,154,049
Jul-08	1,531,819	55.26%	163,777	5.91%	469,972	16.95%	606,674	21.88%				2,772,242
Aug-08	1,447,950	56.95%	147,862	5.82%	447,658	17.61%	499,186	19.62%				2,542,656
Sep-08	1,553,312	80.66%	81,539	4.23%	87,536	4.55%	203,397	10.56%				1,925,784
Oct-08	1,560,924	91.77%	0	0.00%	92,299	5.43%	47,770	2.80%				1,700,993
Nov-08	1,676,249	81.35%	0	0.00%	370,227	17.97%	13,952	0.68%				2,060,428
Dec-08	1,400,628	69.46%	0	0.00%	418,950	20.78%	196,798	9.76%				2,016,376
Totals	\$ 15,970,951	67.98%	\$ 677,441	2.88%	\$ 4,086,623	17.39%	\$ 2,760,124	11.75%				\$ 23,495,139

South Carolina Electric & Gas Company
Details of Environmental Costs
February 2008 - April 2009
Docket No. 2009-2-E

	Actual					
	<u>Feb-08</u>	<u>Mar-08</u>	<u>Apr-08</u>	<u>May-08</u>	<u>Jun-08</u>	<u>Jul-08</u> <u>Aug-08</u>
Environmental Costs Incurred						
SO ₂ Emissions Allowances (\$)	1,403,415	1,497,191	1,096,648	1,380,301	1,422,514	1,531,819 1,447,950
NO _x Emissions Allowances (\$)	-	-	-	137,792	146,471	163,777 147,862
Limestone (\$)	481,943	307,480	466,332	505,951	438,275	469,972 447,658
Ammonia (\$)	3,090	6,114	6,174	30,180	1,146,789	606,674 499,186
Sub-Total (\$)	1,888,448	1,810,785	1,569,154	2,054,224	3,154,049	2,772,242 2,542,656
Less: Environ. Costs Recovered in Inter-Company Sales (\$)	130,420	31,568	11,192	2,171	6,448	17,588 14,116
Net Environmental Costs (\$)	1,758,028	1,779,217	1,557,962	2,052,053	3,147,601	2,754,654 2,528,540
Retail Allocation Factor of Total Environmental Costs (%)	94.33%	94.33%	94.33%	94.33%	94.33%	94.33% 94.33%
Retail Share of Total Environmental Costs (\$)	1,658,348	1,678,335	1,469,626	1,935,702	2,969,132	2,598,465 2,385,172
Amounts Billed to Retail Customers (\$)	-	-	-	1,147,344	1,485,159	1,682,058 1,628,486
Over (Under) Recovery (\$)	(1,658,348)	(1,678,335)	(1,469,626)	(788,358)	(1,483,973)	(916,407) (756,686)
Cumulative Over(Under) Recovery - January 2008 (\$)	9,866,854					
Cumulative Over (Under) Recovery (\$)	8,208,506	6,530,171	5,060,545	4,272,187	2,788,214	1,871,807 1,115,121

South Carolina Electric & Gas Company
Details of Environmental Costs
February 2008 - April 2009
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	Actual				Estimated			
	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09
Environmental Costs Incurred								
SO2 Emissions Allowances (\$)	1,553,312	1,560,924	1,676,249	1,400,628	573,236	435,556	393,460	392,223
NOx Emissions Allowances (\$)	81,539	-	-	-	-	-	-	-
Limestone (\$)	87,536	92,299	370,227	418,950	358,600	324,000	358,600	289,000
Ammonia (\$)	203,397	47,770	13,952	196,798	752,200	659,400	625,950	592,850
Sub-Total (\$)	1,925,784	1,700,993	2,060,428	2,016,376	1,684,036	1,418,956	1,378,010	1,274,073
Less: Environ. Costs Recovered in Inter-Company Sales (\$)	44,264	21,868	41,135	46,299	74,940	83,170	49,630	49,960
Net Environmental Costs (\$)	1,881,520	1,679,125	2,019,293	1,970,077	1,609,096	1,335,786	1,328,380	1,224,113
Retail Allocation Factor of Total Environmental Costs (%)	94.33%	94.33%	94.33%	94.33%	94.46%	94.46%	94.46%	94.46%
Retail Share of Total Environmental Costs (\$)	1,774,838	1,583,919	1,904,799	1,858,374	1,519,952	1,261,783	1,254,788	1,156,297
Amounts Billed to Retail Customers (\$)	1,551,618	1,184,093	1,076,089	1,344,880	1,461,600	1,356,510	1,247,580	1,133,150
Over (Under) Recovery (\$)	(223,220)	(399,826)	(828,710)	(513,494)	(58,352)	94,727	(7,208)	(23,147)
August 2008 - (p. 1 of 2)	1,115,121							
Adjustments (\$)--Over (Under) Recovery	(1) 210,907 (A)	-						
	(1)		378,000 (B)					
Company's Unbilled Fuel Cost Over/(Under) Recov Adjmt.	(2)			692,253				
Less: Adjustment-Per ORS Review (Over-Recovery Effect)	(3)			14,081,647			(41,062)	(49,826)
Cumulative Over (Under) Recovery (\$)	1,102,808	702,982	252,272	14,512,678	14,540,937	14,490,914	14,442,644	14,369,671

* Explanations of Adjustments (1) through (3) on Audit Exhibit JRC-8 are included in the testimony of Jacqueline R. Cherry.